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AIRGRAM

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NO.

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HANDLING INDICATOR

TO : Department of State (FE/EX) 1964 DEC 8 AM 10 04

FROM : Ambassador MANILA DATE: Dec. 3, 1964

SUBJECT : Government-furnished Quarters for Newly Assigned Employees

REF : Dep WIROM 693, October 30, 1964; Emb WIROM 967, November 20, 1964.

The Department's WIROM 693 announced a program of providing Government-leased and furnished quarters for all newly assigned personnel for the remainder of this fiscal year and requested certain cost data in connection therewith. Before supplying the specific data requested, it is essential to provide some pertinent background information to place this response in proper perspective.

Stocks on Hand

As the Department is aware, the Embassy has a considerable stock of household furniture and some appliances which are used for loaning to newly arrived employees. This stock has been "inherited" through the years from various sources. Much of it is old and in poor condition, useable only as a temporary makeshift, but a substantial quantity is good enough, with some rehabilitation, to be used in initiating this new program. With minor repairs, refinishing, re-upholstering, etc., many of the furniture items can be used for several years thus reducing the initial cost impact of starting the program.

The Embassy does not have any air conditioners for loan and has only a limited number of stoves, refrigerators, water heaters, etc., most of which (because of age and condition) would be unsuitable for use in this program except as temporary spares. However, as the program matures and the Embassy no longer has need of such items for loan purposes, most of them could be sold and the proceeds used toward acquiring new replacement items.

Procurement of Electrical Appliances

The Embassy's normal source of supply for electrical appliances is the

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exchanges at the U.S. Military Bases. While the stocks on hand at any given time are variable as to quantity as well as brand and model, it is possible to order specific brands and models desired with a delivery time of three to five months. In undertaking a program of this magnitude (approximately 105 housing units over a three-year period), it is highly desirable to standardize on a limited number of brands and models to simplify maintenance and repair problems. Thus, refrigerators, stoves, washing machines and water heaters should be ordered in lots of 25 or 30 and air conditioners and fans in lots of 50 or more. This is particularly true of air conditioners so that replacement units can be easily substituted when repairs are required instead of having to make a new complicated installation. Stocking of repair parts and repair know-how will also be simplified if standardization on a limited number of makes and models is maintained.

The Embassy urges, therefore, that it be authorized (and be provided funds) to order, in one lot, all the appliances required under this program for the remainder of this fiscal year and the first three months of next fiscal year.

Since appliances ordered through the base exchanges for official use are billed to the Embassy at cost plus a nominal handling charge and are shipped from the States via MSTs, the delivered cost is less than direct procurement from the stateside vendor plus commercial freight.

Procurement of Furniture

The Embassy is aware of FBO's arrangement with a Singapore firm for the purchase of Danish Modern furniture and will, of course, explore other sources as well. But for the time being, because of the substantial quantities of Philippine-made furniture already in stock, it holds the view that it would be the wisest policy to purchase augmenting pieces locally, to match that already on hand, instead of going elsewhere and buying completely different styles. Later, after existing stocks have been depleted, it may be desirable to purchase Danish Modern or other styles but one should bear in mind that the local rattan and Philippine hardwoods are well suited to this climate and the cost is quite reasonable.

Also for consideration is the possible adverse political reaction to the Embassy's making substantial purchases of furniture for use here from non-Philippine sources (other than the United States).

Normally, locally made furniture can be delivered within thirty to sixty days, depending upon the quantity ordered. For a program of this size, it would be advantageous to order in quantity with a staggered delivery schedule extending over four or five months.

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Materials for Draperies and Slip Covers

Past experience leads the Embassy to believe that U. S. fabrics purchased by the bolt may be more economical in the long run than fabrics purchased in this area. Many of the latter lack uniformity in quality and are less durable and colorfast than good U.S. fabrics, particularly those with "Scotchguard" or similar treatment.

Cost Estimates for Furniture, Furnishings and Appliances

The Embassy will, of course, furnish only those items authorized for government-furnished quarters by 6 FAM 732, limiting the number of air conditioners to one for each occupied bedroom. In the Embassy's Airgram No. A-1057, dated June 26, 1964, it was estimated that, on an average, the cost of furnishing a housing unit would be \$4,000, less for an apartment for a single employee or childless couple, more for a family unit with children or for senior personnel with representational responsibilities. More careful examination of the ratio between single and family units suggests that this estimate may now be reduced to \$3,500.

In arriving at the cost estimates for furniture and furnishings, the Embassy has drawn heavily upon the experience of the local AID Mission which has been furnishing all its housing units (privately leased) for many years.

Clearly, without having the specifications of a particular housing unit, it is not possible to give a precise estimate of the cost of furnishing it. Number and size of rooms, number of windows, presence or absence of verandas and all such factors affect the cost. Subject to variations because of these factors, the following rough estimates in round figures are given for a one-bedroom apartment and a three-bedroom house:

<u>Appliances</u>	<u>One-bedroom Apartment</u>	<u>Three-bedroom House</u>
Stove	\$ 200	\$ 225
Refrigerator	190	225
Air Conditioners	(1) 225	(3) 675
Hotwater Heater	(1) 85	(2)* 170
Ceiling or floor fans	(2) 80	(3) 120
Washing machine	--	120
sub-total	\$ 780	\$ 1,535

*Many of the houses now being constructed have two separate hot water systems, each serving only a portion of the house. In these cases two hotwater heaters are required.

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<u>Furniture</u>	<u>One-bedroom Apartment</u>	<u>Three-bedroom House</u>
Living Room	\$ 400	\$ 500
Veranda	---	200
Dining Room	300	400
Kitchen	70	100
Bedroom	350	(3) 1,050
Draperies and slipcovers	150	350
Blinds (Venetian, matchstick, slat or awnings)	100	240
Bathrooms, Laundry, Servants quarters, etc.	90	125
	<u>\$1,460</u>	<u>sub-total \$2,935</u>
	<u>\$2,240</u>	<u>grand-total \$4,500</u>

As pointed out in the Embassy's Airgram No. A-1057, mentioned above, rental rates in Manila are rising rapidly and no end seems to be in sight. Recently arrived employees are having to pay as much as 25% more rent than the amount covered by their quarters allowances. Because the rental allowances are not based upon the current rental rates that a new employee has to pay, but upon overall statistical averages which are depressed by leases entered into two to four years ago, it is totally unrealistic to assume that the Embassy can make government leases at figures which, including utility costs, will approximate the presently authorized quarters allowances, even with the incentive of advance rent payments.

Accordingly, no saving can be expected on the combined temporary lodging and quarters allowances for the average newly-assigned employee. Rental costs plus utilities will normally exceed these combined costs.

As indicated above, at present the excess costs will average about 25%, by next summer they will, no doubt, be more unless, of course, the quarters allowance rates are adjusted upward in the meantime.

Personnel and Maintenance Costs

In its Airgram No. A-1057, the Embassy set forth at some length the problems encountered at this post with government leases, particularly in regard to having landlords discharge their maintenance and repair responsibilities. These problems have not diminished meanwhile. In undertaking this program, the Embassy, therefore, proposes to draft its leases with provisions that the lessee (Government) rather than the lessor will assume the responsibility for routine maintenance, interior painting (except initial painting), etc., and that the lessor will be responsible for exterior painting, repair of structural defects, major storm damage, and the like.

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Hopefully, a price concession can be obtained thereby but, more important, the Embassy can more effectively discharge its responsibilities to its employees by providing routine maintenance services with its own employees than it could by haggling with landlords predisposed to evade their contractual obligations.

Initially, one additional high-level local employee, about an FSL-4 (\$1,580 per annum), will be needed to locate properties and handle the preliminary negotiations with owners and their agents. The high-level local will be required early in January and, by a fortunate coincidence, an excellent employee will become available as of December 31 when the Foreign Claims Settlement Commission office closes.

Early in FY 1966, as the program develops, it will be necessary to add an American supervisor, additional local inventory clerks, additional budget and fiscal clerks, etc. In the initial stages of this program, it will not be necessary to augment the Embassy's maintenance staff of on-rolls employees. While the volume of work is small it can be handled contractually but as the number of leases increases it will be more economical and efficient to add plumbers, painters, carpenters and electricians to the staff. The Embassy does not visualize such additions until about thirty units are under lease, i.e., during the first quarter of FY 1966.

The Embassy assumes that, in line with the Department's drive for uniform administrative practices at overseas posts, it will not be long until AID, USIA, and other agencies join in the program of providing government-furnished quarters and that, of course, will change the whole picture. When that happens, a joint housing, maintenance and inventory operation will be an inevitable necessity.

Method of Approach to Problem

The Embassy is somewhat concerned at what appears to be a piece-meal or nibbling approach to this program, i.e., Dep WIRON asks what it will cost to provide government housing for each of three named individuals. It would obviously be more economical and efficient in undertaking a program of this size to purchase needed items of furniture, appliances, drapery and slipcover materials, etc., in wholesale lots than on a piece-by-piece basis. Twenty-five or fifty living room sets can be purchased in one lot for a considerably smaller unit cost than the same number purchased one at a time.

Presumably, the Department has the funds in sight to finance this program, otherwise, it would not have directed its initiation. The Embassy urges, therefore, in the interest of efficiency and economy, that the project be approached on an overall basis rather than on an employee-by-employee basis, and reiterates

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the statement made above to the effect that one cannot give a precise figure for the cost of housing an individual employee until the quarters for that individual have been selected and the physical characteristics of the house or apartment are known.

The average costs given on pages 3 and 4 of this airgram have been carefully prepared and are as close as can be estimated for long-range planning purposes. However, because of the stocks on hand, per capita costs for the remainder of the current fiscal year will be considerably less, as detailed below.

Cost Estimates for Remainder FY 1965

As stated in the opening paragraphs of this airgram, the Embassy has a considerable stock of household furniture on hand which can be used to help in furnishing the first houses and apartments leased. On this assumption, the following estimates are given for the thirty or so sets of quarters to be furnished during the remainder of this fiscal year:

<u>Appliances</u>	<u>One-bedroom Apartment</u>	<u>Three-bedroom House</u>
(Same as listed on page 3)	\$ 780	\$ 1,535
<u>Furniture and furnishings</u>		
Reconditioning of furniture already on hand plus purchase of augmenting pieces, such as lamps	300	500
Draperies and slipcovers	150	350
Blinds (Venetian or substitute)	100	240
Bathrooms, Laundry and Servants Quarters	90	125
Totals for Furnishings and Appliances	\$ 1,420	\$ 2,750

(NOTE: For a family requiring only two bedrooms, deduct from the three-bedroom figure the cost of one air conditioner (\$225) and 20% of the costs for blinds, draperies and slipcovers [\$120 in round figures] leaving a total of \$2,405)

Rents and Utilities

As already stated, recently arrived employees are unable to find suitable quarters without exceeding their quarters allowances by about 25%. To many landlords a U.S. Government lease is less desirable than a private lease with a

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U.S. Government employee because the former involves more "red tape" and does not offer the flexibility for negotiation when unexpected situations arise. The only inducement the Embassy can offer for a government lease is advance payment of the rent. The Embassy does not, however, favor making advance payments for more than three months at a time, unless there are exceptional circumstances, as the next rent check is the only real leverage the Embassy has to enforce the provisions of the lease. In sum, therefore, the Embassy does not anticipate being able to obtain leases at substantially lower rental rates than individual employees could rent the same premises.

Additional Considerations

Four employees who have recently arrived have been unable to find housing at rates approximately their quarters allowances and are still occupying temporary lodgings, viz., Dorothy Saunders, Secretary to the Ambassador; Mary McMullen, Personnel Assistant; Brian Kinally, Messenger; and William McCoy, Communications Supervisor. In fairness and equity it would seem that the Embassy should be authorized to make government leases for these employees since it is now the policy to provide government furnished quarters.

Two other employees, scheduled to arrive in January (McClelland and Arner) were not mentioned in Dep WIROM 693 but should also be included in the program.

The Embassy should also be authorized, in its discretion, to convert to government lease private leases of employees who have good houses or apartments at favorable rental rates. (Furnishing such quarters would be deferred until the present occupants are transferred.) It is hoped that a number of such leases could be converted and that the Embassy could thus avoid an "automatic" rental rate increase when the present tenants leave.

The Department's advice is solicited with regard to attempting to negotiate lease-purchase agreements. Given the present lucrative rental market in the Manila area, it is not certain that such agreements could be negotiated but, before going into the matter, the Department's views are needed. If lease-purchase contracts are encouraged, a sample agreement and policy guidance should also be supplied.

Summary of Additional FY 1965 Cost Estimates

Assumptions Used for Estimating:

- (1) Replacement employees will have same marital status and be in same quarters allowance groups as present incumbents. (17 single; 15 with dependents)
- (2) Replacements will arrive during same month as present incumbents depart.
- (3) Based upon (2) above, an average of 4½ months rental payments will be required for each new arrival during remainder of this fiscal year. (This takes into account that for a May, June, or early July arrival, three months advance rent will be paid out of current FY funds.)
- (4) Cost for rent plus utilities will equal 125% of quarters allowances at current rate.

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Cost for Appliances, Furniture and Furnishings

17 single employees @ \$1,420 (See page 6 for detail)	\$24,140
12 employees with dependents requiring 3 bedrooms @ \$2,750	33,000
3 employees with dependents requiring 2 bedrooms @ \$2,405	<u>7,215</u>
sub-total	<u>\$64,355</u>

Cost for Rent and Utilities

4 1/2 months @ 125% present quarters allowance	\$25,210
Less estimated savings in temporary lodging	<u>5,000</u>
	20,210
Less present quarters allowances costs	<u>20,250</u>
Difference	(cr.) 40
Additional costs for rent and utilities	none

Costs for Additional Personnel

1 FSL-4 @ \$1,580 p.a. (6 mos.)	\$ 790
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Maintenance and Repair Costs

Contractual services	<u>\$ 295</u>
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grand total	<u>\$65,400</u>
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Action Requested:

1. Immediate authorization to employ one additional local employee at approximately \$1,580 p.a.
2. Immediate authorization to lease and furnish quarters for the six employees mentioned above (Saunders, McMullen, Kinally, McCoy, McClelland and Armor).
3. Authorization for the Embassy to convert private leases to government leases when, in the Embassy's judgment, it will be in the interests of the government to do so.

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4. Authorization to proceed with procurement of a stockpile of appliances, drapery and slipcover materials, etc., estimated for the balance of this fiscal year and the first quarter of FY 1966.
5. Authorization of funds for the above, based upon the estimates contained herein.

Early action on the above items is urgently needed if the objectives of the program are to be met.

For the Ambassador:

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